Report

of the

Examination of

Jamestown Mutual Insurance Company

Kieler, Wisconsin

As of December 31, 2000

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May 18, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2000, of the affairs and financial condition of:

JAMESTOWN MUTUAL INSURANCE COMPANY
Kieler, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of Jamestown Mutual Insurance Company ("Jamestown Mutual," the "company") was made in 1996 as of December 31, 1995. The current examination covered the intervening time period ending December 31, 2000, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was initially organized as a town mutual insurance company on March 14, 1885, in accordance with then existing provisions of Wisconsin Statutes. The original name of the company was Jamestown Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to Jamestown Mutual Insurance Company, the name presently used by the company.

During the period under examination, there were two amendments to the articles of incorporation and one amendment to the bylaws. The amendments changed the total authorized membership of board of directors to a minimum of nine and a maximum of eleven, and expanded the authorized business territory of the company to include the counties of Dane, Green, Richland, Rock, and Sauk.

A review of the certificate of authority revealed that Jamestown Mutual is currently is licensed to write business in the following counties:

Grant, Lafayette, Iowa, Crawford, Dane, Green, Richland, Rock, and Sauk.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year, with premiums payable on the advance premium basis. Installment premiums may be paid on a semi annual or quarterly basis, for which an installment fee of $5 is charged for each installment billing. The company does not charge policy fees to its policyholders.

The business of Jamestown Mutual is acquired through eight independent insurance agencies. The company has an agency agreement with each of the agencies and does not have agreements with individual agents. The two agencies that originate the largest volume of business for the company produced 80% of the gross premiums written by the company during the year 2000. Nineteen agents actively write business for the company, and four of the active agents are Jamestown Mutual directors.

Jamestown Mutual direct writing agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
Homeowners (all coverages)	20%
Farmowners (all coverages)	15%
Commercial (all coverages)	15%

Agents do not have authority to adjust any loss claims. The company's salaried claims adjuster, who is employed on a part-time basis, adjusts most of the company's loss claims, and the company's Secretary/Office Manager adjusts some additional claims. The part-time adjuster is paid an annual salary of $12,500. The company occasionally engages a professional claims adjuster as an independent contractor to adjudicate specialized or sensitive loss claims.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class of directors is elected for a three-year term of office at each annual meeting of policyholders. An interim vacancy of the elected directors may be filled by board appointment of a director to serve the remaining unexpired term until the next annual meeting, when a director shall be elected by the policyholders to permanently fill the vacancy.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Ambrose Oldenburg	Retired	Galena, IL	2001
Richard Lange	Farmer	Platteville, WI	2001
Guy Richard	Business Owner/Manager	Kieler, WI	2001
William Slaats *	Retired	Cuba City, WI	2002
Jay Brant	Accountant	Cuba City, WI	2002
Bruce Fritz *	Independent Agent	Lancaster, WI	2002
Keith Schleisman	Secretary-Manager, Agent	Cuba City, WI	2003
Dennis Marshall *	Independent Agent	Dickeyville, WI	2003
Tony Runde *	Independent Agent and Farmer	Hazel Green, WI	2003

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $75 for each meeting attended. Mileage reimbursement of $0.345 per mile is paid to inspectors, to company employee adjustors, and for other business travel by representatives of the company.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	2001 Salary
Richard Lange	President	$ 0
Guy Richard	Vice-President	$ 3,300
Keith Schleisman	Secretary-Manager	$33,300
Jay Brant	Treasurer	$ 3,300

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
Guy Richards
Jay Brant
Keith Schleisman

Investment Committee
Jay Brant
Keith Schleisman
Dennis Marshall

Growth of Company

The growth of Jamestown Mutual Insurance Company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1996	$530,284	$292,972	1,146	$ 75,197	$1,274,721	$734,765
1997	657,464	489,852	1,122	32,123	1,281,920	722,897
1998	649,642	606,661	1,037	(56,896)	1,660,269	735,666
1999	620,410	375,950	988	84,793	1,413,676	824,866
2000	$627,929	$568,516	967	$(37,540)	$1,335,146	$764,424

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1996	$832,908	$600,189	$734,765	113%	82%
1997	884,756	630,589	772,897	114%	82%
1998	835,497	599,125	735,666	114%	81%
1999	876,456	625,237	824,866	106%	76%
2000	$918,656	$636,909	$764,424	120%	83%

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1996	$292,972	$221,188	$530,284	55%	37%	92%
1997	489,852	191,314	657,464	75%	30%	105%
1998	606,661	187,635	649,642	93%	31%	124%
1999	375,950	199,979	620,410	61%	32%	93%
2000	$568,516	$193,590	$627,929	91%	30%	121%

During the years under examination the company has experienced generally favorable operating results, having had positive net income in three years and underwriting gains in two of the years.

The above data do not reflect errors in company year-end reports and accounting practices whereby the company understated premium assets and premium liabilities during each of the years under examination. The reporting errors in 2000 resulted in examination adjustment and reclassifications of account balances that increased reported premium assets and increased reported premium liabilities, and increased reported 2000 policyholder surplus by 8% to an adjusted valuation of $830,811.

II. REINSURANCE

Examination review of the company's reinsurance program determined that there is currently one ceding treaty. The treaty contained proper insolvency provisions. Company retention of risk complied with s. Ins 13.06, Wis. Adm. Code, in that the company's nonproperty (liability) business is ceded 100% and the company does not retain any risk for liability coverages.

Reinsurer:	Grinnell Mutual Reinsurance Company
Effective date:	January 1, 1995
Termination provisions:	The contract is continuous for successive annual contract-year terms until the contract is terminated. Termination may be initiated either party at the end of any calendar year upon 90 days' advance written notice. The reinsurer may terminate upon 90 days' prior written notice under any of four specified conditions.
Other provisions:	A. Earth movement exclusion does not apply with regard to company policies that provide earthquake insurance, which is reinsured 100% by the reinsurer.
	B. The company shall cede 100% of the coverage that is insured by pollution cleanup and removal coverage policy endorsements.

The coverages provided under this contract are summarized as follows:

1.	Type:	Individual Occurrence of Loss Excess Reinsurance
	Lines reinsured:	Property
	Company's retention:	$100,000 of loss each individual occurrence of loss, plus all loss adjustment expenses
	Coverage:	100% of incurred loss in excess of the company's per occurrence retention for: (a) fire losses at one location on one or more policies, and/or (b) windstorm and hail losses at one location from one storm on one or more policies and/or losses insured on one policy at multiple locations
	Reinsurance premium:	$0.1569 monthly per $1,000 on the adjusted gross fire risk in force at the end of each month during the contract year
2.	Type:	Aggregate Excess Reinsurance
	Lines reinsured:	Property
	Company's retention:	Aggregate annual net loss up to an adjusted attachment point for aggregate net losses based on ten-year average fire loss ratio plus a load (for 2001, the attachment point is $579,222) plus all loss adjustment expenses. Specified risks in excess of stated limitations are not considered in

		determination of aggregate net loss, but may be eligible for full reinsurance protection under facultative reinsurance.
	Coverage:	100% of the aggregate net losses in excess of the company aggregate loss retention limit in a calendar year
	Reinsurance premium:	$0.0358 monthly per $1,000 on adjusted gross fire risk in force at the end of each month during the contract year.
3.	Type:	Facultative Reinsurance
	Lines reinsured:	Property
	Company's retention:	$100,000 of loss per loss occurrence plus losses in excess of coverage schedule limitations; limits apply to buildings and contents located within a 50-foot exposure distance that pertain to the risk
	Coverage:	Excess loss above retention for all or part of specific risks ceded up to coverage schedule limitations. Risks not ceded within 30 days may be individually submitted; reinsurer shall determine which risks are acceptable.
	Reinsurance premium:	Determined by the reinsurer on an individual basis
4.	Type:	Personal Liability Quota Share Reinsurance
	Lines reinsured:	Comprehensive personal liability and farmers comprehensive personal liability
	Company's retention:	None, except LAE
	Coverage:	100% of loss from personal liability risks on policies covered
	Reinsurance premium:	100% of the premiums charged by the reinsurer
	Ceding commission:	20% of the premiums charged by the reinsurer

The reinsurance agreement includes a contingent commission addendum agreement for liability insurance issued by the company and reinsured by Grinnell. The contingent commission program provides that the company can earn a contingent commission from 5% to 30% depending on the volume of liability premiums written by the company and on the profitability of the book of business. During the years under review by this examination, the company qualified for contingent commission for its liability insurance business in 1997.

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2000. Adjustments to accounts made as a result of the examination are noted at the end of this section of this report in the area captioned "Reconciliation of Policyholders' Surplus."

Jamestown Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2000

Assets	**Ledger**	**Nonledger**	**Not Admitted**	**Net Admitted**
Cash in Company's Office	$ 100	$	$	$ 100
Cash Deposited in Checking Account	3,912			3,912
Cash Deposited at Interest	834,556			834,556
Bonds (at Amortized Cost)	112,428			112,428
Stocks or Mutual Fund Investments (at Market)	257,885			257,885
Real Estate (Net of Accumulated Depreciation and Encumbrances)	29,442			29,442
Premiums and Agents' Balances In Course of Collection	3,201			3,201
Investment Income Due or Accrued		$17,151		17,151
Reinsurance Recoverable on Paid Losses and LAE	46,332			46,332
Other Assets Federal Income Tax Refund Receivable	30,139			30,139
Furniture and Fixtures	218		218	0
TOTALS	$1,318,213	$17,151	$218	$1,335,146

Liabilities and Surplus

Net Unpaid Losses	$219,716
Unpaid Loss Adjustment Expenses	1,715
Commissions Payable	
Fire Department Dues Payable	315
Net Unearned Premiums	321,847
Reinsurance Payable	21,976
Other Liabilities: Expense Related Accounts Payable	3,642
Accrued Property Tax	1,511
TOTAL LIABILITIES	570,722
Policyholders' Surplus	764,424
TOTAL	$1,335,146

Jamestown Mutual Insurance Company
Statement of Operations
For the Year 2000

Net Premiums and Assessments Earned	$627,929
Deduct:	
Net Losses Incurred	542,653
Net Loss Adjustment Expenses Incurred	25,863
Other Underwriting Expenses Incurred	193,590
Total Losses and Expenses Incurred	762,106
Net Underwriting Gain (Loss)	(134,177)
Net Investment Income:	
Net Investment Income Earned	80,622
Total Investment Income	80,622
Other Income:	
Rounding	2
Net Investment and Other Income	80,624
Net Income (Loss) Before Federal Income Taxes	(53,553)
Federal Income Taxes Incurred	16,013
Net Income (Loss)	$(37,540)

Jamestown Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination, as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1995		$667,471
1996		
Net income (loss)	$75,197	
Net unrealized capital losses	(7,903)	
Change in surplus as regards policyholders for the year		67,294
Surplus as regards policyholders, December 31, 1996		734,765
1997		
Net income (loss)	$44,557	
Net unrealized capital gains or losses	6,009	
Change in surplus as regards policyholders for the year		50,566
Surplus as regards policyholders, December 31, 1997		785,331
1998		
Net income (loss)	$(56,896)	
Net unrealized capital gains or losses	7,740	
Change in nonadmitted assets	(509)	
Change in surplus as regards policyholders for the year		(49,665)
Surplus as regards policyholders, December 31, 1998		735,666
1999		
Net income (loss)	$84,793	
Net unrealized capital gains or losses	4,236	
Change in nonadmitted assets	170	
Change in surplus as regards policyholders for the year		89,200
Surplus as regards policyholders, December 31, 1999		824,866
2000		
Net income	$(37,540)	
Net unrealized capital gains or losses	(23,023)	
Change in nonadmitted assets	121	
Change in surplus as regards policyholders for the year		(60,442)

Surplus as regards policyholders, December 31, 2000	$764,424

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Policyholders' Surplus per December 31, 2000, Annual Statement			$ 764,424
Item	**Increase**	**Decrease**	
Unearned Premium Liability	$66,387	$ 0	
Total	$66,387	$ 0	
Increase to Surplus per Examination			66,387
Policyholders' Surplus per Examination			$830,811

Reclassification Account	**Debit**	**Credit**
Premiums Deferred and Not Yet Due	$182,926	
Unearned Premium Liability		$182,926
Premiums in Course of Collection	6,235	
Advanced Premium Liability		6,235
Total	$189,161	$189,161

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were fifteen specific financial examination comments and recommendations and six specific market conduct examination comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

Financial

1. Corporate Records—It is recommended that minutes be maintained for all committees of the board of directors, that the board committees be appointed annually, that the board or committee minutes indicate approval of investment transactions, and that the minutes of meetings to amend the articles state the votes for and against.

   Action—Compliance

2. Underwriting—It is suggested that a sampling of new applications and of renewal business, besides large dairy farms, be inspected by an inspector independent of the (agent) risk under consideration.

   Action—Compliance

3. Claims Adjusting—It is recommended that the company comply with s. 612.13 (4), Wis. Stat., by the directors annually appointing an adjusting committee consisting of at least three directors to adjust or supervise the adjustment of losses.

   Action—Compliance

4. Accounts and Records—It is recommended that expenses in Schedule K be allocated and shown as required in the annual statement instructions.

   Action—Compliance.

5. Accounts and Records—It is recommended that the number of policies, the insurance in force, and the annual or in force premiums cross-reference and reconcile between reports, records of the company, and the annual statement.

   Action—Partial compliance. The examination determined that there were numerous errors in premium balances reported by the company due to errors in the execution of year-end computer systems reports for premium transactions. Current examination comment and recommendation is included in the examination findings section of this report captioned "Accounts and Records."

6. Invested Assets—It is recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of invested assets by holding securities under a custodial agreement which contains the necessary safeguards and controls listed in the NAIC Examiners Handbook, that the custodial agreement be amended to list the securities currently being held, and that securities not be held by a brokerage firm.

   Action—Compliance

7. Reinsurance Agreement—It is recommended that the company's reinsurance agreement be amended to include the required statutory language limiting losses.

   Action—Compliance

8. Book Value of Bonds—It is recommended that the company not invest more than 3% of assets in any single issuer of a security, other than a municipal or U. S. Government, in accordance with s. Ins 6.20 (5) (g), Wis. Adm. Code.

   Action—Compliance

9. Stocks and Mutual Fund Investments—It is again recommended that the company invest no more than 10% of its assets in any one issuer (or family), other than the U. S. Government, in compliance with s. 620.23 (2), Wis. Stat.

   Action—The company is in compliance with regulatory requirements. Subsequent to the adoption of the prior examination, the company was granted approval for investment of up to 15% in aggregate of assets in money market mutual funds providing that the investment is in two or more families of funds with no more than 10% of assets in any one family or issuer.

10. Stocks and Mutual Fund Investments—It is recommended that mutual fund investments only be in those mutual funds that invest in approved investments per s. Ins 6.20, Wis. Adm. Code, or that prior approval of the investment has been obtained.

    Action—Compliance

11. Equipment, Furniture, and Supplies—It is recommended that fully depreciated furniture and equipment not be shown as a ledger asset, that the depreciation expense be reported in Schedule K, and that software be reported on the proper line of the annual statement.

    Action—Compliance

12. Reinsurance Contingent Commission Receivable—It is recommended that contingent commission amounts be established in future annual statements, and that the liability contingency commission schedule and the organizational agreement be filed with the Commissioner of Insurance in conjunction with the filing of its reinsurance contracts.

    Action—Compliance

13. Net Unpaid Losses—It is recommended that the company include an estimate for incurred but not reported losses based upon prior experience, and that liability losses be reported as required by the annual statement instructions.

    Action—Compliance

14. Net Unpaid Losses—It is recommended that the company maintain a loss register for liability claims, that documentation to determine reserve amounts be in the claim files, and that the company adopt procedures for claims that have remained open without settlement.

    Action—Compliance

15. Unearned Premiums—It is recommended that the company comply with s. Ins 13.08, Wis. Adm. Code, and the annual statement instructions in calculating the unearned premium reserve and the premiums in force in Schedule H of the annual statement by using the original or full-term basis, and include in Schedule H-2 unearned nonproperty premiums.

Action—Compliance. However, the examination determined that there is material error in reported unearned premium liability due to company error in execution of year-end systems reports for premium transactions and due to incorrect statutory accounting practice. Current examination comment and recommendation is included in the examination findings sections of this report captioned “Premium and Installments Booked but Deferred and Not Yet Due” and “Unearned Premiums.”

Market Conduct

The scope of the current examination report is limited to matters of financial regulation. The current examination report does not include a review of prior examination comments and recommendations pertaining to matters of market conduct regulation. Review of the company’s compliance with the market conduct findings will be performed separately by the Market Regulation Bureau of the Office of the Commissioner of Insurance.

Summary of Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its independent insurance agencies. The agency contracts include language indicating that the agencies will represent the interests of the company "in good faith."

Conflict of Interest Disclosures

In accordance with a directive of the Commissioner of Insurance, each insurer is required to establish a procedure for the disclosure to its board of directors of any personal circumstances, material interest, or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of the required procedure is the annual completion of a conflict of interest disclosure by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires prepared during the period under examination were reviewed, with no apparent conflicts being noted.

Examination review determined that company officers, directors, and key employees did not execute conflict of interest questionnaires in the two most recent years under examination. The failure to compete the disclosures was due to an oversight in the performance of the company's existing compliance procedures. It is recommended that the company's officers, directors, and key employees annually execute and submit conflict of interest disclosure to the company, in compliance with the directive of the Commissioner.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and is in compliance with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity Bond	$125,000

Other insurance coverages and employee benefits were reviewed, and appeared to be satisfactory with regard to the insurable interests of the company.

Underwriting

The company has a written underwriting guide. The guide covers all of the lines of business currently written by the company.

The company has a formal inspection procedure for both new and renewal business. For all new business and for all policy renewals excluding homeowners, the agent performs a property inspection and conducts a review with the insured of policy provisions and coverages. In addition to the inspections performed by agents, inspections for a sampling of new policy applications and renewal business are performed by inspectors who do not have personal financial interest in the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained

4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2000.

A review of data from the company's policy in-force data files found numerous errors in the company's year-end valuations related to premium balances, including reported coverages in-force and premiums in-force. An error in year-end unearned premium liability reports resulted in a $66,386 overstatement in the company's calculation of unearned premium liability. Further discussion and recommendation regarding the unearned premium balance is included in the findings section of this report captioned "Unearned Premium."

The examiners determined that the observed errors in the company's year-end premium accounting reports are due to the error of the company manager in executing year-end reports in the company's computer system. The manager has not had significant updated training in the company's computer system since the system was installed in 1989, and the manager appears to be insufficiently trained in the proper execution of year-end system reports. It is recommended that the company obtain sufficient training of personnel or otherwise employ sufficient external resources to enable the company to obtain correct policy in-force data and to execute correct year-end financial reports from the company's electronic data system.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computer is limited to people authorized to use the computer.

Company personnel back up the computers daily and the backed-up data is kept in a fireproof cabinet in the company office. Additionally, a monthly back up of company data is maintained off site. The expectation of the Commissioner is that a town mutual shall save a data back up at least weekly and store the back up at a safe place off site from the company offices. It is recommended that the company establish a procedure in which its computer system is backed up at least weekly, and that the company's data back-up is kept in a safe place located off site from the location of the company's business office and computer operations.

A software documentation manual that describes how to use the company's software and outlines the steps to complete specific tasks can assist in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company does not have adequate documentation of its computer systems, and had material exceptions in its reported premium accounts due to the office staff's inadequate training and understanding of the company's computer software. It is recommended that the company maintain manuals and reference materials to document its computer system technology and to document the use of company software applications.

Business Interruption Recovery Plan

A business interruption recovery plan identifies steps to be performed, and provides for essential business resources that would be needed, to enable the company to maintain or reestablish its operations in the event of an unexpected emergency that would otherwise interrupt operations. Potential business interruption events include company loss of a key employee, company loss of its computer systems, significant loss of data information from company computer files, or the unplanned loss of use of company office facilities. The company has given general consideration to disaster recovery issues, but it has not taken action to develop a formal disaster recovery plan. It is recommended that the company develop a formal business interruption contingency recovery plan, to provide alternative plans and resources necessary for company business continuation in the event of disaster or other significant business interruption.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutual insurers was amended to allow a town mutual insurer to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Calculation of the company's minimum required Type 1 investment as of December 31, 2000 is as follows:

1.	Liabilities plus $300,000	$993,496
2.	Liabilities plus 33% of gross premiums written	999,677
3.	Liabilities plus 50% of net premiums written	1,011,950
4.	Minimum Type 1 investment required (greater of 1, 2, or 3)	1,011,950
5.	Amount of Type 1 investments as of 12/31/2000	835,558
6.	Deficit of Type 1 investment to minimum requirement	$176,392

The company does not have sufficient Type 1 investments. The Commissioner granted the company permission to hold the Type 2 investments that the company currently owns, and instructed the company to engage in no further acquisition of Type 2 investments until such time as the company achieves Type 1 sufficiency. The company is in compliance with the permitted practice authorization and the investment limitation instructions of the Commissioner.

ASSETS

Cash and Invested Cash **$838,568**

The above asset is comprised of the following types of cash items:

Cash in company's office	$ 100
Cash deposited in banks-checking accounts	3,912
Cash deposited in banks at interest	834,556
Total	$838,568

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a bank. Verification of checking account balances was made by obtaining confirmation directly from the depository and by reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of eleven deposits in ten depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2000 totaled $50,954 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 4.95% to 7.01%. Accrued interest on cash deposits totaled $14,444 at year-end.

Book Value of Bonds **$112,428**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2000. The bonds owned by the company are issued in the form of book entry on the records of the issuer entities.

Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2000 on bonds amounted to $8,625 and was traced to cash receipts records. Accrued interest of $2,702 at December 31, 2000, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments $257,885

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2000. Stocks owned by the company are located in a fireproof cabinet on the premises of the company office.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2000 on stocks and mutual funds equaled $16,464 and were traced to cash receipts records. There were no accrued dividends on stock and mutual fund investments at December 31, 2000.

Book Value of Real Estate $29,442

The above amount represents the company's investment in real estate as of December 31, 2000. The company's real estate holdings consisted of the company's home office building located in Kieler, Wisconsin.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premium in Course of Collection $9,436

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of the company's uncollected premium balances determined that the company had liability for premiums received in advance of their respective premium due dates of $6,235 that was netted against year-end uncollected premiums. The advanced premium should have been reported as a separate liability, and the examination made a reclassification of $6,235 to increase the reported premiums in course of collection and to establish an advance premium liability of $6,235. Additional comment and recommendation are included in the examination findings section of this report captioned "Advanced Premium Liability." It is recommended that the company correctly calculate and report its premiums in the course of collection assets and not net those assets with advance premium liability, in compliance with town mutual annual statement instructions.

Premium and Installments Booked but Deferred and Not Yet Due $182,926

The above asset represents deferred premium receivables for policies currently in force. The deferred premiums will be billed and will be due in the following year for those policies issued by the company that are paid for on an installment basis by the respective insureds. Examination review of company premium accounts and records verified the deferred premium asset.

The company mistakenly did not report its deferred installment premium assets in its balance sheet due to a misunderstanding of statutory accounting, and a failure to comply with the town mutual annual statement instructions. The deferred installment account recognizes an asset for premiums that an insurer will bill in the future related to policies currently in force, just as the premium in course of collection account recognizes the insurer's asset for premiums that have been billed on the insurer's in force business. The examination made a reclassification of $182,926 to admit the unreported deferred premium asset, and made a corresponding reclassification to unearned premium to recognize liability for unearned premium equal to the deferred premium asset. It is recommended that the company properly report its assets for premium and installments booked but deferred and not yet due, in compliance with town mutual annual statement instructions.

Investment Income Due and Accrued **$17,151**

Interest due and accrued on the various assets of the company at December 31, 2000, consists of the following:

Interest Due and Accrued—Cash Accounts	$14,444
Interest Due and Accrued--Bonds	2,707
Total Investment Income Due and Accrued	$17,151

Reinsurance Recoverable on Paid Losses **$46,332**

The above asset represents recoveries due to the company from reinsurance on losses that were incurred on or prior to December 31, 2000. A review of year-end accountings with the reinsurer verified the reported asset.

Federal Income Tax Refund Receivable **$30,139**

The federal income tax receivable balance consists of 2000 federal income tax overpayment of $13,000 and prior-period income tax loss carry-forward credits of $17,139. Review of the company's 2000 tax return, accounting records, and 2001 cash receipts verified the reported federal income tax asset as properly accrued as of year-end 2000.

Equipment, Furniture, and Supplies **$218**

This asset consists of $218 of furniture and fixtures owned by the company at December 31, 2000. In accordance with annual statement requirements, this amount has been deducted as an asset not admitted.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$219,716**

This liability represents losses incurred on or prior to December 31, 2000, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule:

	Company Estimate	Examiners' Development	Difference
Incurred But Unpaid Losses	$219,716	$219,716	$0
Less:			
Reinsurance Recoverable on Unpaid Losses	0	0	0
Net Unpaid Losses	$219,716	$219,716	$0

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2000. To the actual paid loss figures was added an estimated amount for those 2000 and prior losses remaining unpaid at the examination date.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$1,715**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2000, but which remained unpaid as of year-end. The company establishes this liability based on an estimation of an ultimate amount of loss adjustment expense for each individual claim. The estimate is derived based on analysis of annual per-claim cost for the adjustment services performed by the salaried adjustor and by the Secretary.

The examiners’ analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Fire Department Dues Payable **$315**

The above captioned liability represents the fire department dues payable at December 31, 2000. The examiners reviewed the company’s fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$438,387**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Examination review of the company’s in-force data and unearned premium calculations determined that the company understated its unearned premium liability by $116,540. The company incorrectly calculated its unearned premium to include $66,387 of liability for policies that were billed by the company at year-end for renewals that had policy effective dates in the following calendar year, resulting in some policies having unearned premium calculated for periods of greater than 365 days. The examination made a $66,387 adjustment to company reported surplus; the adjustment decreased the reported unearned premium liability and increased policyholder surplus.

As described in the findings section of this report captioned “Premium and Installments Booked but Deferred and Not Yet Due,” the examination determined that the company did not report its $182,926 deferred premium asset as an admitted asset, and did not report a corresponding unearned premium liability. The examination made a reclassification of $182,926; the reclassification classified deferred premiums as an admitted asset and increased the reported unearned premium liability by $182,926 to reflect the proper contra-asset deferred premium liability.

The errors in the company's reported liability for unearned premium were due to a mistaken understanding of statutory accounting practice and to error in the execution of year-end computer reports of in-force data. Comment and recommendation regarding the company's computer reports is included in the findings section of this report captioned "Accounts and Records." It is recommended that the company properly calculate and report its unearned premiums liability in accordance with town mutual annual statement instructions.

Reinsurance Payable **$21,976**

This liability consists of accrued amounts payable to the company's reinsurer at December 31, 2000, relating to transactions that occurred on or prior to that date. The liability represents reinsurance premiums payable on the business written by the company in the month of December 2000, and included accrual of premium for aggregate excess property, earthquake, and liability reinsurance coverages. Review of company reinsurance accountings and subsequent cash disbursements verified the reinsurance liability as reasonably stated as of year-end 2000.

Accounts Payable **$3,642**

The accounts payable liability represents amounts for expenses incurred in 2000 that remained unpaid and due as of year-end 2000. Review of supporting records and subsequent cash disbursement documentation verified the reported accrual of accounts payable liability.

Accrued Property Taxes **$1,511**

The accrued property tax liability represents the company's property taxes on the company office building that were unpaid and outstanding as of December 31, 2000. Supporting records and subsequent cash disbursement documentation verified the 2000 property tax liability.

Premiums Received in Advance **$6,235**

The above captioned liability is for premiums received by the company in advance of the premium due dates—premiums billed and received in 2000 having due dates in 2001, for 2001 coverage periods. The company incorrectly netted its advance premium liability with its premiums in the course of collection assets, and did not report a liability for advanced premiums.

Town mutual annual statement instruction require that a town mutual insurer report premiums received in advance as a separately identified liability. The company's current practice results in an understatement of premium receivable assets and an equal, corresponding understatement of premium liabilities in the balance sheet, and is not acceptable statutory accounting practice. The examiners reclassified the year-end advanced premium balance of $6,235 from premium in the course of collection assets and reclassified the $6,235 balance to premiums received in advance liability. It is recommended that the company report its liability for premiums received in advance as a separately identified liability in its statutory financial statements, in compliance with the town mutual annual statement instructions.

V. CONCLUSION

Jamestown Mutual Insurance Company is licensed as a town mutual insurer and writes property insurance including windstorm and hail coverages. The company also writes non-property insurance, which is 100% ceded to the company's reinsurer. During the years under review, the company obtained approval to add five counties to its authorized writings territory, and the company is currently authorized to conduct insurance business in the counties of Grant, Lafayette, Iowa, Crawford, Dane, Green, Richland, Rock, and Sauk.

During the past five-years the company had net underwriting gains in two years and favorable net income in three years. The number of policies in force decreased by 17% during the period to 967 policies, whereas gross insurance in force increased by 17% to $216 million and net premiums written increased by 19% to $636,909. The growth of business in force and premium written reflects increase in the average coverages written for farm policies. The company achieved significant reduction in its expense ratio, which ranged from 39% in 1992 to 37% in 1996, and which in the subsequent four-years from 1997 to 2000 ranged from 30% to 32%.

The current examination determined that the company had significant deficiencies in its financial reporting of premium accounts, and that the deficiencies gave rise to material misstatement of company assets, liabilities, and surplus. The observed exceptions are due to the company's misunderstanding of statutory accounting practice, and to company use of computer reports that are improperly executed and that do not correctly report the statistical data base record for the company's premium transactions. The examination determined that the company was substantially in compliance with the financial regulation recommendations of the previous examination, the sole matters of incomplete compliance being premium-related issues where the company's use of incorrectly prepared reports proved to be the source of exceptions noted by the prior examination.

The current examination made nine recommendations, as summarized in Part VI of this report. The examination made an adjustment to unearned premium liability that resulted in a net increase of reported surplus of $66,387. The examination determined that, as of December

31, 2000, the company had total admitted assets of $1,524,307 liabilities of $693,496, and policyholders surplus of $830,811.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 Conflict of Interest Disclosures—It is recommended that the company's officers, directors, and key employees annually execute and submit conflict of interest disclosure to the company, in compliance with the directive of the Commissioner.

2. Page 21 Accounts and Records—It is recommended that the company obtain sufficient training of personnel or otherwise employ sufficient external resources to enable the company to obtain correct policy in-force data and to execute correct year-end financial reports from the company's electronic data system.

3. Page 22 EDP Environment—It is recommended that the company establish a procedure in which its computer system is backed up at least weekly, and that the company's data back-up is kept in a safe place located off site from the location of the company's business office and computer operations.

4 Page 22 EDP Environment—It is recommended that the company maintain manuals and reference materials to document its computer system technology and to document the use of company software applications.

5. Page 22 Business Interruption Recovery Plan—It is recommended that the company develop a formal business interruption contingency recovery plan, to provide alternative plans and resources necessary for company business continuation in the event of disaster or other significant business interruption.

6. Page 26 Premiums in Course of Collection—It is recommended that the company correctly calculate and report its premiums in the course of collection assets and not net those assets with advance premium liability, in compliance with town mutual annual statement instructions.

7. Page 26 Premiums and Installments Booked but Deferred and Not Yet Due—It is recommended that the company properly report its assets for premium and installments booked but deferred and not yet due, in compliance with town mutual annual statement instructions.

8. Page 30 Unearned Premiums—It is recommended that the company properly calculate and report its unearned premium liability in accordance with town mutual annual statement instructions.

9. Page 31 Premiums Received in Advance Liability—It is recommended that the company report its liability for premiums received in advance as a separately identified liability in its statutory financial statements, in compliance with the town mutual annual statement instructions.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Ms. Rebecca Easland of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge